

# Baxter and Hillrom: integrating without disrupting care

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**Industry:** Health Care Equipment

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## Case overview

- **Audience:** MBA students and working professionals
- **Course fit:** Strategy execution, mergers and acquisitions, innovation management, healthcare technology
- **Decision owner:** Hypothetical Baxter post-close integration steering group
- **Decision date and information cutoff:** 13 December 2021, close of day U.S. Central time
- **Decision scope:** Set priorities and governance for the first 12-18 months after closing; no acquisition valuation or financial model is required

## The first day together

On Monday, 13 December 2021, Baxter International announced that it had completed its acquisition of Hillrom. Baxter had paid \$156 in cash for each Hillrom share, for a purchase price of approximately \$10.5 billion based on shares outstanding at closing. The deal joined a global medical-products company known for infusion therapies, nutrition, renal care and medication delivery with a company whose portfolio included smart beds, patient monitoring and diagnostics, respiratory devices, surgical equipment and care communications.

The strategic promise was broad: bring connected care across the hospital and home, pair complementary products, and make more of each company's commercial reach. Baxter also repeated its estimate of approximately \$250 million in annual pre-tax **cost** synergies by the end of year three and projected high-single-digit return on invested capital by year five. The cost estimate did not include benefits from possible new revenue growth. These were management expectations, not realized results.

The hypothetical integration steering group must now recommend how to organize the work. Should Baxter push rapidly to combine teams and systems across the two companies, aiming to capture scale and savings as early as possible? Or should it integrate selectively and in stages: combine activities only where duplication is established, coordinate commercial access without confusing customer ownership, and govern connected-care development through joint programs while keeping clear product and clinical accountability?

This is a **simulated management decision** for classroom analysis. It is not a claim that Baxter disclosed this precise committee, its authority, or an internal debate. The group's assumed authority to sequence work and allocate executive attention is an exercise assumption.

Students should use only information available by the cutoff above and should not use later operating results.

## Two portfolios, several kinds of fit

Baxter described Hillrom as adding products and services that help enable earlier diagnosis and treatment, optimize surgical efficiency, accelerate recovery, simplify clinical communication and move care closer to home. Hillrom's own annual report described three segments:

- **Patient Support Systems:** hospital beds, surfaces and related support and communication products, including rental activity.
- **Front Line Care:** patient monitoring, physical assessment and diagnostic products, cardiology and respiratory health devices.
- **Surgical Solutions:** equipment and related products for the surgical environment.

Baxter's established businesses included medication delivery, acute therapies, renal care, pharmaceuticals, clinical nutrition and advanced surgery. It also described ambitions in digital health and care beyond the hospital. Baxter's deal materials called the product portfolios complementary and identified international expansion, connected care and broader access to customers as opportunities.

But "complementary" can mean different things. Products may address different stages of a patient's care; a global sales and service network may help a product reach new hospitals; software and devices may exchange useful information; or two organizations may simply have distinct businesses. Each mechanism calls for a different integration choice. A shared customer may value a coordinated offering while still wanting familiar account contacts and reliable service. Product teams may be able to combine selected capabilities while needing to preserve different clinical, technical or regulatory expertise.

Hillrom said it competed on clinical expertise and utility, patient outcomes, value, quality, service, innovation and breadth. Its listed competitors varied by segment, including Arjo, Stryker, Philips, GE Healthcare, Rauland/Vocera and others. Its annual report also described changing medical-device regulation, cybersecurity and IT risks, and a multi-year ERP and systems transformation involving internal teams and vendors. These conditions make customer continuity and technical execution part of the integration question, rather than separate implementation details.

## The promised savings and the growth thesis

Baxter's September acquisition presentation described a plan to focus cost savings on general and administrative functions, selected supply-chain opportunities and use of Baxter's existing geographic infrastructure. It said the integration strategy would preserve combined customer relationships, incorporate Hillrom products into existing or new Baxter categories, and invest in connected-care capabilities. Baxter later said the two companies had formed an Integration Management Office with teams from both sides to plan the combination.

The end-of-year-three synergy estimate is a cost target. It does not quantify how much might come from each function or geography, the cost of executing the changes, or the amount of overlap that has been validated. Growth opportunities from cross-selling, international reach and product innovation are separate hypotheses. A recommendation that treats the cost estimate as certain, or counts new revenue toward it, skips the central management problem: deciding which capabilities must be integrated to create value and how to protect the businesses that must keep serving patients during the transition.

Baxter's filings identified integration risks, including management distraction, the challenge of combining technologies, operations and regulatory functions, differences in culture, key-person retention and possible disruption to customers and other market relationships. Hillrom's filing described rising raw-material and component costs and demand patterns affected by COVID-19. Its fiscal 2021 performance reflected higher COVID-related bed rentals, shifts in respiratory demand, product launches, reimbursement changes and hospitals returning to more normal surgical activity. A change in revenue or margin after closing could reflect these market and product factors as well as integration.

## What should be integrated first?

The group has limited senior-management attention. It must assign an executive owner, define a sequence, and tell employees and customers what will happen next. The choices below are alternatives for this exercise; neither is a description of Baxter's actual post-close plan.

**Option 1: Broad, rapid integration.** Combine more functions, systems and teams early; accelerate common processes and organizational decisions; and pursue the announced savings with a fast integration timetable. Supporters may argue that delay creates duplicated expense, complicates decisions and leaves Baxter's global infrastructure underused. Common commercial coverage could simplify access to the combined portfolio; common product and data standards could support care across settings; and a larger coordinated development effort could bring complementary capabilities together faster. This approach still needs clear quality, regulatory and customer-service ownership.

**Option 2: Selective, sequenced integration.** Establish a common integration office and shared outcomes, but combine workstreams only after mapping actual overlap, customer dependencies and technical requirements. Begin with activities where common scale or duplicated overhead can be verified. Coordinate customer coverage while making account ownership and service responsibilities explicit. For connected-care and product development, form joint teams around specific interoperability or workflow opportunities, with named technical, clinical, quality and regulatory owners and milestones. Preserve separate decision rights where the evidence shows that expertise or customer continuity depends on them.

The second approach may reduce avoidable disruption, but can leave duplicate costs in place longer, add coordination overhead and delay savings. The first may accelerate simplification, but risks making structural decisions before the company understands product-level overlap, customer needs or integration costs. Neither alternative removes the need to make choices about talent, system migration, product roadmaps, quality and customer communication.

## Student assignment

You are advising the hypothetical integration steering group on 13 December 2021. Prepare a concise recommendation that:

1. Selects a first-year integration posture and names the workstreams you would integrate early, stage, or keep distinct.
2. Explains how the choice could support both the cost-synergy target and the longer-term connected-care thesis without treating those as the same benefit.
3. Identifies the evidence or diligence the group must obtain before making hard-to-reverse decisions about people, systems, customers or product development.
4. Proposes three indicators for the first year and states what evidence would cause you to change course.

No single recommendation is required. Use the exhibits to distinguish disclosed facts from management estimates and your assumptions. Do not infer actual product interoperability, customer conversion, cost savings, integration decisions or later outcomes from the portfolio descriptions.

## Exhibits

### Exhibit 1. Transaction and decision timeline

| Date          | Event                                                                                                                                 | Evidence class                           |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
| 2 Sep 2021    | Baxter announced a definitive agreement to acquire Hillrom for \$156 per share in cash.                                               | Company announcement and Baxter 10-Q [F] |
| 30 Sep 2021   | Quarter end for Baxter's latest quarterly filing before closing; the deal was still subject to shareholder and regulatory conditions. | Baxter Form 10-Q [F]                     |
| 12 Nov 2021   | Hillrom filed its FY2021 Form 10-K for the year ended 30 September.                                                                   | SEC filing detail [F]                    |
| 13 Dec 2021   | Baxter announced deal completion and reiterated its synergy and return expectations.                                                  | SEC-filed completion release [F/M]       |
| End of year 3 | Baxter's stated target date for approximately \$250 million in annual pre-tax cost synergies.                                         | Baxter management estimate [M]           |
| Year 5        | Baxter's stated horizon for high-single-digit ROIC.                                                                                   | Baxter management estimate [M]           |

## Exhibit 2. What each company brings

| Area                     | Baxter description before close                                                                             | Hillrom description before close                                                                                         | What the record establishes / leaves open                                                                    |
|--------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| Core products            | Medication delivery, acute therapies, renal care, pharmaceuticals, clinical nutrition, advanced surgery     | Patient Support Systems, Front Line Care, Surgical Solutions                                                             | Broad categories differ, but category labels do not reveal product-by-product overlap or interoperability.   |
| Care setting             | Baxter described a goal of serving patients across care settings and moving care closer to home.            | Hillrom described connected-care products, collaboration tools and equipment across hospital and point-of-care settings. | Supports a strategic fit hypothesis; it does not demonstrate a combined patient workflow or customer demand. |
| Commercial reach         | Baxter proposed using its global infrastructure to expand Hillrom products internationally.                 | Hillrom reported customers and competition across several segments.                                                      | Actual channel economics, account ownership, service capacity and cross-sell conversion are not disclosed.   |
| Digital / connected care | Baxter identified investment in complementary connected-care capabilities.                                  | Hillrom described smart beds, monitoring, diagnostics and real-time insights.                                            | No public product architecture or integration-cost map is provided.                                          |
| Execution constraints    | Baxter identified integration complexity, regulatory and technology risks, distraction and retention risks. | Hillrom described ERP/IT transformation, cybersecurity, device regulation and supply-chain exposures.                    | Workstream-level risk and mitigation data are not public in these materials.                                 |

*Sources: Baxter Form 10-Q for quarter ended 30 September 2021, Note 2 and Item 1A; Hillrom Form 10-K for FY ended 30 September 2021, Items 1, 1A and 7; Baxter acquisition presentation dated 2 September 2021.*

### Exhibit 3. Management's announced integration principles

| Baxter's September 2021 investor presentation                                                                               | How students should treat it                                                                           |
|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Focus synergy realization on minimizing risk to top-line growth and business disruption.                                    | Announced intent, not evidence the risk was eliminated.                                                |
| Focus cost savings on G&A, selected supply-chain opportunities and use of existing geographic infrastructure.               | Management's stated focus areas; no public workstream bridge, timing or validated overlap is provided. |
| Preserve existing customer relationships.                                                                                   | Stated principle; no customer-level transition or retention data is provided.                          |
| Incorporate Hillrom into new or existing Baxter product categories and invest in complementary connected-care capabilities. | Strategic ambition; technical feasibility and customer value remain questions.                         |
| Approximately \$250m annual pre-tax cost synergies by the end of year three.                                                | Forward-looking cost estimate; Baxter said it excludes potential new revenue-growth benefits.          |
| High-single-digit ROIC by year five.                                                                                        | Forward-looking management projection, not an achieved return.                                         |

### Exhibit 4. Hillrom fiscal 2021 context

| Hillrom filing observation                                                                                                                                                                               | Why it matters for attribution                                                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Patient Support Systems rental revenue rose 12.7%, primarily from higher U.S. bed deployment related to COVID-19 hospital needs.                                                                         | Pandemic demand can change as hospital needs normalize.                             |
| Front Line Care revenue rose with demand, new launches and a retrospective reimbursement increase for some respiratory devices; ventilator revenue also reflected the prior year's unusual COVID demand. | Several drivers may continue or reverse independently of integration.               |
| Surgical Solutions revenue benefited as hospitals resumed more normal operating activity; the OEM business exit offset part of the change.                                                               | Recovery and portfolio choices can affect the post-close baseline.                  |
| Raw materials, components, labor and delivery costs created pressure; price increases might not fully offset input inflation.                                                                            | Cost movements cannot be assigned to integration without separating market effects. |

Source: Hillrom FY2021 Form 10-K, Item 7, segment revenue and operating discussion.

## Exhibit 5. Decision criteria for the first year

| Criterion                        | Questions for the steering group                                                                                                                               |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Patient and customer continuity  | Which customers depend on current service teams, product combinations or response times? Who owns account and escalation decisions during any channel changes? |
| Verifiable cost opportunities    | Where is work duplicated in fact? What is the expected saving net of transition costs, service risk and any required replacement capability?                   |
| Product and technical capability | Which use cases require interoperability or shared development? What are the technical dependencies, safety and quality gates, and accountable product owners? |
| Talent and culture               | Which technical, clinical, commercial or operational leaders are hard to replace? What retention risks arise from rapid structural decisions?                  |
| Learning and reversibility       | Which actions can be piloted or staged? What measures would show that the integration choice is harming service or slowing a strategically important product?  |

**Evidence classes:** [F] company or filing fact; [M] company management estimate or stated plan; all proposed governance structures, options and indicators are classroom design choices unless explicitly identified otherwise.